

**Minutes
State Board of Investment
March 4, 2014**

The State Board of Investment (SBI) met at 10:00 A.M. Tuesday, March 4, 2014 in Room 318, State Capitol, St. Paul, Minnesota. Governor Mark Dayton (via telephone), State Auditor Rebecca Otto, Secretary of State Mark Ritchie and Attorney General Lori Swanson were present. Ms. Swanson was the Chair for the meeting. The minutes of the December 11, 2013 meeting were approved.

Executive Director's Report

Mr. Perry, Executive Director, referred members to Tab A of the meeting materials, and he reported that the Combined Funds had outperformed its Composite Index over the ten year period ending December 31, 2013 (Combined Funds 8.1% vs. Composite 7.8%) and had provided a real rate of return over the latest 20 year period (Combined Funds 8.5% vs. CPI 2.3%).

Mr. Perry said that the Combined Funds' assets increased 5.4% for the quarter ending December 31, 2013 due to positive market performance. He said that the asset mix was rebalanced in January, and he stated that the Combined Funds outperformed its Composite Index for the quarter (Combined Funds 6.4% vs. Composite 5.9%), for the year (Combined Funds 20.2% vs. Composite 18.4%) and over longer periods.

Mr. Perry reported that the domestic stock manager group outperformed its target for the quarter (Domestic Stocks 10.2% vs. Domestic Equity Asset Class Target 10.1%) and for the year (Domestic Stock 35.1% vs. Domestic Equity Asset Class Target 33.6%). He said the international stock manager group outperformed its target for the quarter (International Stock 5.5% vs. International Equity Asset Class Target 4.8%) and for the year (International Stock 17.8% vs. International Equity Asset Class Target 15.3%). Mr. Perry stated that the bond segment outperformed its target for the quarter (Bonds 0.1% vs. Fixed Income Asset Class Target -0.1%) and for the year (Bonds -1.3% vs. Fixed Income Asset Class Target -2.0%). He stated that the alternative investments had a healthy return for the quarter (5.6% for the quarter and 15.8% for the year). He concluded his report with the comment that, as of December 31, 2013, the SBI was responsible for over \$73 billion in assets.

Mr. Perry referred members to Tab B of the meeting materials for an update on the budget and travel for the quarter. He stated that the Legislative Auditor has completed the financial audit of SBI operations and that members will receive a copy as soon as it is available. He noted that there was one minor written finding related to a rebalancing misclassification. He stated that the finding has been corrected. He stated that Tab B contains updated information on Sudan and Iran.

Mr. Perry stated that at the last meeting, the Board approved a motion to have staff pursue legislation to provide greater flexibility for the investment options in the Supplemental Investment Fund. Mr. Ritchie moved approval of the bill language and recommendation, as

stated in Tab B of the meeting materials, which reads: **“The Investment Advisory Council concurs with Staff’s recommendation that legislation be pursued which will enable greater flexibility to provide appropriate investment options through the Supplemental Investment Fund.”** The motion passed.

Mr. Perry stated that discussions continue with the Teachers Retirement Association (TRA) regarding language for a merger bill for Duluth and St. Paul that would allow both plans to invest in the Combined Funds whether they merged with TRA or not.

Mr. Perry stated that there has been some preliminary discussions regarding potential legislation which would offer small private employers and self-employed people the opportunity to participate in a retirement plan. He stated that the SBI has been named in the language to have the investment authority over this. There would be a separate program board that would be created to determine how it would be administered.

Mr. Perry stated that staff worked with the Office of Higher Education (OHE) on an RFP for the selection of a vendor to provide administrative, marketing and investment services for the State’s College Savings Plan, an internal revenue code section 529 plan. He stated that three responses to the RFP were received and that staff from the SBI and OHE recommend to renew a new five year contract with TIAA-CREF. Mr. Ritchie moved approval of the recommendation, as stated in Tab B of the meeting materials, which reads: **“Staff, in concurrence with the Commissioner of the Office of the Higher Education, recommends approval of a new five year contract with TIAA-CREF Tuition Financing Inc (TFI) to provide services for the Minnesota College Savings Plan.”** The motion passed.

Mr. Perry stated that staff is requesting a change to the Supplemental Investment Plan. The Income Share Account is a balanced plan with a 60% allocation to stocks, 35% to bonds and 5% cash. The stocks are managed by the Domestic Equity Pool and currently the bonds are managed internally by staff. The bond portfolio is approximately \$100 million dollars. In order to address management efficiencies and to provide a consistent approach, staff is recommending a transfer to external managers in the Bond Pool. Ms. Otto moved approval of the recommendation, as stated in Tab B of the meeting materials, which reads: **“The Investment Advisory Council concurs with staff’s recommendation to transfer management of the bond segment of the Income Share Account to the SBI Bond Pool.”** The motion passed.

Mr. Perry noted that there is currently no litigation involving the SBI.

Mr. Perry stated that John Griebenow and Debbie Griebenow were retiring from staff after 34 years of service. Mr. Perry also announced that LeaAnn Stagg was named Chief Operating Officer in anticipation of Jim Heidelberg’s retirement. Ms. Swanson congratulated Ms. Stagg and expressed her appreciation and thanked the Griebenows for their long-time service to the State of Minnesota.

Mr. Bailey referred members to Tab C of the meeting material for updated information on the SBI’s equity and fixed income managers and noted that there were no action items at this time. Mr. Bailey stated that there was a roundtable discussion on various private debt investment

strategies. The IAC recommended that staff continue to pursue various private debt investment strategies and bring back more information to the IAC at some future date.

Mr. Bailey stated during the quarter he had sent a survey to IAC members to get their feedback on the role of the IAC. He summarized the results stating that the IAC continues to view themselves as a provider of high level advice and consultation both to the Board and the SBI staff as it relates to broader policy issues.

Mr. Bailey referred members to Tab D of the meeting materials and briefly reviewed new investments with one existing resource manager (Energy & Minerals Group) and two existing private equity managers (Lexington Capital Partners, Strategic Partners). Mr. Ritchie moved approval of all three recommendations, as stated in Tab D of the meeting materials, which reads: **"The Investment Advisory Council concurs with staff's recommendation that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$200 million, or 20% of EMG III, whichever is less. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the Investment Advisory Council, the State Board of Investment nor its Executive Director have any liability for reliance by EMG upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on EMG or reduction or termination of the commitment.**

The Investment Advisory Council concurs with staff's recommendation that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$150 million, or 20% of LCP VIII, whichever is less. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the Investment Advisory Council, the State Board of Investment nor its Executive Director have any liability for reliance by Lexington upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Lexington or reduction or termination of the commitment.

The Investment Advisory Council concurs with staff's recommendation that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$150 million, or 20% of SP VI, whichever is less. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the Investment Advisory Council, the State Board of Investment nor its Executive Director have any liability for reliance by Strategic Partners upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in

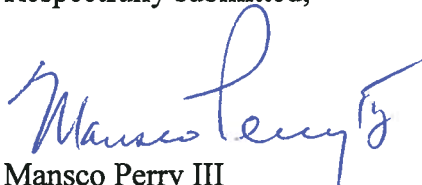
the imposition of additional terms and conditions on Strategic Partners or reduction or termination of the commitment.” The motion passed.

Mr. Bailey stated that there was an additional action item for Public Pension Capital (PPC Fund) to allow them flexibility to close on a minimum amount of \$400 million. Mr. Ritchie moved approval of the recommendation, as stated in Tab D of the meeting materials, which reads: **“The Investment Advisory Council concurs with staff’s recommendation that the SBI authorize the Executive Director, with assistance from the SBI’s legal counsel, to negotiate and execute a commitment of up to \$100 million, or 20% of the PPC Fund, whichever is less. Additionally, the commitment is contingent on PPC obtaining at least \$400 million in signed and finalized commitments to the Fund from at least four (4) other investors in the Fund by June 30, 2014. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the Investment Advisory Council, the State Board of Investment nor its Executive Director have any liability for reliance by PPC upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on PPC or reduction or termination of the commitment.”** The motion passed.

Elena Modl, Alexa Grapentine and Sam Burrill-Bowen representing Minnesota Break the Bonds briefly addressed the Board regarding investments in Israel. Ms. Swanson thanked them for taking time to join the meeting.

The meeting adjourned at 10:25 a.m.

Respectfully submitted,



Mansco Perry III
Executive Director